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POLAND: ANNUAL REVIEW FOR 1986

HER MAJESTY'S AMBASSADOR AT WARSAW TO THE SECRETARY  
OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

SUMMARY

- Some progress towards national reconciliation: political prisoners released. Bilateral relations inch forward (para 1).
2. Internal: some democratisation. Jaruzelski consolidates his party position: endorsed by Gorbachev. Opposition's divided aims. Church-State contacts. Economy in crisis: public suspicion of reforms (paras 2-7).
  3. External: further efforts to establish international respectability in pursuit of relaxation of western policies on debt and credits. EC makes more impact politically and economically. Internationally the Soviet line prevails (paras 8-10).
  4. Anglo-Polish relations: critical dialogue geared to internal progress hampered by postponement of three Ministerial visits. Poles unable to meet UK conditions for short-term credits. Commercial and cultural visitors and cultural events warmly received. Exports slightly down (paras 11-13).
  5. Prospects: all depend on authorities' readiness to take tough measures for economic recovery: IMF's vital role. Authorities will try to avoid fresh repression. Forthcoming British Ministerial visits should boost bilateral relations but western partners will also upgrade their contacts. Exports likely to stagnate. Worst case: rapid economic decline and unrest could force Poland back into Moscow's arms: not in the west's interests to allow this (paras 14-17).





British Embassy  
WARSAW

21 January 1987

The Rt Hon Sir Geoffrey Howe QC MP  
LONDON

Sir,

POLAND: ANNUAL REVIEW FOR 1986

1. Five years after martial law and the suppression of the independent trade union Solidarity, Poland's leadership made overtures and some progress in the direction of national reconciliation and international respectability during 1986. But the economic crisis remained intractable; Poland could not service its debts, little was done to implement the economic reform programme and there was insufficient prospect of popular acquiescence in the tough economic measures envisaged and needed. General Jaruzelski consolidated his position in the party and won Mr Gorbachev's endorsement, but the leadership remained weak in the face of widespread public mistrust and apathy. Polish-British relations inched uneasily ahead, two steps forward and one back politically, but with distinct warmth in commercial and cultural relations. British exports suffered from Poland's hard-currency and credit shortage.

Internal

2. Political: arrests of opposition figures in early 1986 were followed by the unexpected release of effectively all Poland's political prisoners in September. The leadership set up a "Consultative Council" as a forum for dialogue with independent opinion, although initially few people of political weight joined. The authorities promised an Ombudsman and electoral law reform, neither calculated to transform the system but both representing modest potential advances.

3. At the Xth party congress in July Jaruzelski consolidated his position, shedding some hard-liners (and the odd "liberal") and substituting like-minded centrists. The Congress confirmed Jaruzelski's policies of economic reform and cautious liberalisation, a line also ringingly endorsed at the Congress by Mr Gorbachev, who declared his personal support for Jaruzelski. Popular respect for Jaruzelski probably grew during the year, despite continuing bitterness over martial law and the suppression of Solidarity, but the party's standing remained low and there was continuing scepticism about the leadership's will and capacity for real reforms.



4. The release of political prisoners (including several Solidarity leaders) rather cut the ground from under the main opposition groups, whose principal demand this had been. Some factions preached outright opposition to the authorities, others advocating limited cooperation over national problems in exchange for socio-political concessions. Some attached top priority to Solidarity's trade union functions and the need to press for independent trade unions, as reluctantly conceded in 1980; others saw Solidarity as more politically and socially oriented. Although no longer able to bring thousands of Poles out on strike or demonstrations, Solidarity retained widespread support for its values, and a basic organisational framework in the factories. It remained illegal. The authorities promulgated the line that Wałęsa and his colleagues had become irrelevant, yesterday's men.

5. The Church, to which perhaps 95% of Poles belong, continued to offer some protection to Solidarity leaders, although with apparently growing reservations; and kept up pressure on the authorities over political prisoners and human rights. The Primate and General Jaruzelski met twice, to discuss a range of issues including the Pope's third visit to Poland in 1987, a legal status for the Church, and the government's plan to teach comparative religion in schools (against strong Church opposition). Cardinal Glemp announced the abandonment of plans for a Church Agricultural Fund to help private farmers, because of the authorities' demand for an unacceptable degree of control; some Church figures were privately not sorry.

6. Economic: although the economy continued to grow (industrial output by about 4%), the underlying economic crisis deepened, with real inflation probably nearing 20%, the currency still grossly over-valued despite devaluations, imports rising while hard-currency exports remained stagnant, a ratio of debts to exports up to 545% and hard currency debts up by 10% to \$33.5 billion. Despite debt re-schedulings, Poland could not keep up its debt service payments. A financing gap for 1986 approaching \$1 billion seemed likely, rising to \$2-2.5 billion in 1987. Accordingly, there was no indication of western banks or governments contemplating new credits on a scale remotely commensurate with Poland's pressing industrial needs for western imports to rejuvenate export industries. Poland rejoined the IMF, but had not decided by the end of 1986 whether to try for a standby credit agreement which might revive the confidence of western lenders and creditors. Queues and shortages, absenteeism and low productivity persisted.

7. The government's economic reform programme, endlessly debated during the year, promised tough but potentially sound remedies: a shift of resources to exports, more rational prices and wages, reduced subsidies, better distribution of labour, a realistic exchange rate, decentralisation of decision-making and greater scope for market forces. But despite torrents of learned articles, impassioned debates, and firm decisions at the Central Committee's plenum in December on implementation of



several elements in the reform programme, actual implementation made little visible progress in 1986: partly through resistance by vested interests; partly for fear that tough economic measures without public support would set off renewed social unrest, potentially threatening the régime; and probably partly through lack of economic sophistication at the top.

### External

8. The leadership continued its efforts to re-establish Poland's international respectability as the biggest and most liberal of the USSR's European allies - in the hope of eliciting a more forthcoming western attitude to new credits and Polish debt obligations, and to strengthen the régime's claim to legitimacy at home. Mr Gorbachev was a useful ally in this campaign, publicly singling Jaruzelski out as Moscow's senior partner. Chernobyl strained Polish/Soviet relations and gave a fresh impetus to Poland's domestic pressures for more action on environmental protection. Jaruzelski was allowed to make an official visit to China, just ahead of Honecker, perhaps reflecting Poland's long-standing special relationship with Peking. Poland followed the Soviet lead in paying more attention to Asia and the Far East. The Polish Foreign Minister visited Japan, Australia, and also Bonn, the first such visit since martial law. The hard-liners in Washington resisted pressures for lifting economic sanctions against Poland.

9. The government was taken aback by two private démarches from the Twelve about human rights; both were denounced as interference in Poland's internal affairs, but they clearly helped to concentrate Polish minds on the political as well as the economic weight of the EC. The Foreign Minister and the Minister of Foreign Trade attended working lunches with the Twelve's Ambassadors (both during the UK Presidency), along with Deputy Ministers; and the government clearly valued the prospect of an agreement with the Community on economic relations, accepting the need for parallelism with the EC-CMEA negotiations. The Poles were more alive to the importance to them of the EC at the end of the year than at the start.

10. On broader international issues the Poles followed the Moscow line without apparent pain, but sought opportunities for nominally Polish initiatives - eg at CSCE in Vienna - on behalf of the Warsaw Pact or CMEA, designed to emphasise Poland's role in Europe, and its successful recovery from the martial law doldrums.

### Anglo-Polish Relations

11. Our policy of critical dialogue and development of political contacts geared to progress in Poland's internal situation was hampered by a jinx on ministerial visits, although your meeting with Orzechowski in New York marked an advance. The Poles postponed indefinitely a visit planned for April by their own Foreign Minister to London, because we would not promise a call on the Prime Minister (a condition on which the Poles, ignoring their own role as demandeurs, continue to insist). Our proposal

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for a visit by Mr Renton in October also failed, because of the Foreign Minister's absence then but also because of official misgivings over Mr Renton meeting opposition figures in Warsaw at an especially sensitive moment for the authorities. A planned visit by the Industry Minister to promote British mining equipment sales and cooperation was also postponed when Mr Morrison left the DTI in a reshuffle. The dispute over the Orzechowski visit cast a slight pall over our relations; further aggravated by the chance that it fell to me, representing the UK Presidency, to deliver the Twelve's second démarche on human rights (perhaps I exhibited undue enthusiasm for the task). Our offer of limited new short-term credit, conveyed by Mr Christopher Roberts, Chief Executive of BOTB, during his much appreciated visit to the Poznan Trade Fair, made little impact, the Poles grumbling that they could not meet our conditions and that short-term credit was irrelevant.

12. Other contacts, however, underlined Britain's relevance and reinforced our influence on Polish affairs. A delegation from the Polish Parliament visited London under IPU auspices in February, and Sir Bernard Braine's return visit in December with an IPU delegation was notably warmly received. The Chairman of the British Council, Sir David Orr, had an equally warm welcome - justifiably in view of the Council's major contribution to Polish cultural and academic life as a by-product of their highly effective work in promoting British culture. The Polish sides at two Mixed Commission meetings (Economic/Commercial, and Cultural - the latter meeting for the first time since martial law) were similarly forthcoming and positive, acknowledging good existing relations and clearly keen to expand them: in many ways we benefit from not being Russians, Germans or Americans. Two English language Studia and a reading-room were opened. The British Council scored several cultural hits, 40,000 Poles attending British Film Week and a relatively exotic Scottish sixteenth-century play exuberantly performed by the Scottish Theatre Company winning first prize at the International Drama Festival.

13. British exports, having climbed steadily since 1982, were hit by Poland's acute shortage of hard currency (and credits), but made a late recovery and finished November only 4% down on the same period of 1985 at £165.4 million. We expect to retain our place as Poland's second biggest western trade partners (after Germany) but we may have to contemplate a more flexible attitude to new credits, however selectively, if we are to stay there. The Austrians, Italians and Germans are all strong competitors, some of them not over-scrupulous on credit policy. British companies landed no major contracts, with only one currently in sight for 1987.

#### Prospects

14. Almost everything will hinge on Poland's success or failure in starting on the road to economic recovery. Western governments (including HMG) will not want to initiate a radical review of credit and debt settlement policy until there is an IMF structural



programme in place; ie not before early 1988, if at all. Nor will the authorities introduce the tough and controversial economic measures they know to be necessary before 1988 at the earliest: they want time to square public opinion, against the risk of fresh unrest on the 1970 or 1980 patterns.

15. The authorities will try hard to avoid fresh arrests and repression, which would damage their chances of public acquiescence in an economic austerity programme and of more forthcoming western attitudes to credits and a debt settlement. They will use the Consultative Council, their dialogue with the Church (to which the Pope's visit in June will be relevant) and other channels to try to elicit a national consensus in favour of their economic programme. This would make 1988-89 the crunch period for determining which way Poland will go for the rest of the century.

16. Our bilateral relations will be boosted in 1987 by the visits, deferred from last year, of Mr Renton and Mr Giles Shaw (as Mr Morrison's successor). If the problem over a visit to London by the Polish Foreign Minister can be resolved, that would remove a bar to progress and a thorn in Polish flesh. Numerous western governments are already planning to mark Poland's progress in 1986 by up-grading the level and frequency of their official contacts, with Foreign Ministers and others queueing to come to Warsaw. So we may not lead the field for much longer. While the Polish economy stagnates, our exports will tend to decline and we shall do well simply to defend and perhaps expand our market share.

17. We cannot ignore the "worst case" scenario - Polish failure to agree with the IMF, indefinite postponement of necessary economic measures for fear of public reaction, accelerating decline of the economy, mounting arrears of debt, restrictions on Polish imports which would further retard recovery and damage trade, food and other shortages causing mounting unrest, and the Moscow safety-net (if it exists) increasingly appearing as the only salvation. The consequences for Poland's relations with the west and thus for East-West relations, for Mr Gorbachev's own reform programme, and for human rights in Poland would be very serious. There must be a powerful western interest in not letting things come to that.

18. I am sending copies of this despatch to HM Representatives in other Warsaw Pact posts, Belgrade and Washington; and at NATO.

I am, Sir,

Yours faithfully

*Brian Barber*

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Brian Barber